

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6821

BILL NUMBER: HB 1998

DATE PREPARED: Dec 21, 1998

BILL AMENDED:

SUBJECT: Prohibit property tax for police and fire service.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues			
State Expenditures		100,000,000	
Net Increase (Decrease)		(100,000,000)	

Summary of Legislation: This bill eliminates property taxes for police and fire services if the federal government makes fees and other charges for police and fire services deductible for federal income tax purposes. It allows a political subdivision to impose fees and other charges for police and fire services. This bill also imposes an expenditure limit on local police and fire service expenditures and it transfers money from the state General Fund to a state Emergency Reserve Fund.

Effective Date: July 1, 1999.

Explanation of State Expenditures: This bill would require the State Auditor to make a one-time transfer in FY 2000 in an amount equal to 10% of the CY 1998 local expenditures for police and fire services from the state General Fund to the state Emergency Reserve Fund. The transfer would amount to around \$100 million. The fund would be administered by the State Budget Agency.

The fee revenue received by local units under this proposal would be treated as property tax revenue for purposes of property tax replacement credits (PTRC) and homestead credits. The amount of revenue received under the fee schedules would be roughly the same as the amount received under the current property tax law. Therefore, there should not be any effect on the state's liability for PTRC and homestead credits.

Under this bill, a TIF area established before July 1, 2000 within a police or fire service boundary would be eligible for a distribution from the state General Fund if the holders of the bonds or obligations are adversely affected by the elimination of police and fire levies. The amount that the TIF district would receive is the lesser of (1) the amount needed to make payments or (2) the amount by which the allocation was reduced due to elimination of the levies.

The bill would also grant an additional distribution of PTRC from the state General Fund to taxpayers located in an economic development district that is currently receiving an additional distributions and credits. The amount of the General Fund distribution would equal the difference between the amount of additional distributions and credits issued in CY 2000 under current law and the lesser amount that would be issued because of the elimination of fire and police levies.

Explanation of State Revenues:

Explanation of Local Expenditures: In 1997, \$935 million was budgeted for police and fire services expenses. Currently, police and fire expenditures are a part of a local taxing unit's total appropriation. The only limitation is that the total appropriation cannot exceed the total amount of revenue available to the unit. The unit decides what portion of the budget will be spent on police and fire services.

If the fees described in local revenues are imposed, the bill sets new annual expenditure limits for police and fire units. The bill sets the CY 1999 budget for police and fire services as the base year budget. The expenditure limit for all other years would increase the base year amount by a combination of the change in inflation and the change in the unit's population.

These limits may be exceeded if a fiscal emergency is declared by at least a two-thirds vote of the fiscal body and the emergency declaration is approved by the State Tax Board. A unit would have to petition the State Tax Board to approve the declaration and the State Tax Board would hold a hearing on the matter. Payment of expenses directly related to eliminating property tax, including the cost of bond refinancing and other bond related expenses would be treated as a fiscal emergency. Fiscal emergencies may not be included in the appropriation base in the base year.

By July 1 of each year, the State Tax Board would send a statement to each county auditor estimating the expenditure limit for each unit and computing the amount of money that is available to the units for the last six months of the current year and next budget year. The unit would prepare an estimated budget and give notice to the taxpayers. The county tax adjustment board (TAB) would have final approval of the budget unless (1) the county auditor carries out the TAB's duties, (2) the TAB's action is subject to Tax Board review because of a fiscal emergency or the expenditure exceeds limits, or (3) an appeal to the Tax Board is initiated. The unit may make an additional appropriation without State Tax Board approval if the source of additional revenue is federal funds or gifts. The county auditor would also estimate the amount needed to meet the costs of each TIF district that were payable from property taxes.

This bill would create the State Emergency Reserve Fund. Each unit would have a separate account in the fund. Revenues from police and fire fees that exceed the expenditure limit would be transferred to the unit's account in the fund. The balance in each account may not exceed 10% of the money last budgeted by the unit for police and fire services. Any balance in excess of 10% of the budget would be transferred to the unit's General Fund and would be treated as an exempt revenue source. Units may receive money from the reserve fund only to meet a fiscal emergency.

Explanation of Local Revenues: Under this proposal, if fees for police and fire services become tax deductible for federal income tax purposes, then this bill makes it possible for local taxing units and fire protection districts to impose fees instead of property tax levies for these services. This bill would also change the funding source for debt service payments (existing and future) from property tax to fee revenue. Authority to impose a property tax for these services would be eliminated by this bill.

The rates and charges established for fire and police services would not have to be uniform for all users and would be based on the following:

1. A flat charge for each lot, parcel, or building;
2. The amount of police and fire services used;
3. The relative police or fire risk;
4. Whether the unit must buy or lease special facilities or equipment to deliver services to the property; or
5. A combination of these or other factors that are necessary to establish just and equitable rates and charges.

The initial rates would be set by ordinance after a public hearing and publication. Rates could be changed or adjusted by following the same procedure that was initially used to establish them. Fees assessed against property under this proposal would be liens against the property.

The bill prohibits a unit from becoming indebted for police and fire services in an amount that would require payments exceeding 20% of the unit's three year average revenue. A majority of the property owners could, in time of war, foreign invasion, or public calamity, petition the authorities to incur necessary obligations in excess of the limit. Units would be required to request approval from the State Tax Board before they may incur debt or enter into leases for fire or police services with a term of at least five years.

State Agencies Affected: State Board of Tax Commissioners; State Budget Agency.

Local Agencies Affected: Counties, Townships, Cities, and Towns that provide police and fire services; Fire Protection Districts; County Tax Adjustment Boards; County Auditors.

Information Sources: Local Government Database.